

Report of the auditor-general to the Northern Cape provincial legislature and the council on Hantam Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Hantam Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2015, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual information for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2014 (Act No. 10 of 2014) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

Property plant and equipment

6. I was unable to obtain sufficient appropriate audit evidence regarding the physical verification of infrastructure assets and that it had been recorded in the asset register, as the municipality did not have adequate systems and I could not confirm this by alternative means. Consequently, I was unable to determine whether any adjustment to infrastructure assets of R102 429 111 in note 10 to the financial statements was necessary.
7. The municipality did not have adequate systems to maintain records of property, plant and equipment. This resulted in land and buildings and accumulated surplus being understated by R7 288 761. In addition, I was unable to obtain sufficient appropriate audit evidence regarding the physical verification of land and buildings and that it had been recorded in the asset register. I could not confirm land and buildings by alternative means. Consequently, I was unable to determine whether any adjustment to land and buildings of R7 456 561 and note 10 to the financial statements was necessary.

Unauthorised expenditure

8. The municipality did not include the required information on unauthorised expenditure in the notes to the financial statements, as required by section 1 of the MFMA. The municipality made payments in contravention of the functional area covered by the municipality, resulting in unauthorised expenditure of R499 023.

Aggregation of immaterial uncorrected misstatements

9. The financial statements were materially misstated due to the cumulative effect of numerous individually immaterial uncorrected misstatements in the following items included in the statement of financial position, the statement of financial performance and the notes to the financial statements:
 - Receivables from exchange transactions and non-exchange transactions reflected as R9 531 419 and R3 362 072 respectively, was overstated by R767 962 and R330 590.
 - Revenue from exchange transactions and non-exchange transactions reflected as R37 308 086 and R53 267 928 respectively, was overstated by R442 180 and R258 421.

In addition, I was unable to obtain sufficient appropriate audit evidence and to confirm the following items by alternative means:

- Receivables from exchange transactions and non-exchange transactions of R297 441 and R741 966 respectively, as included in the disclosed balances of R9 531 419 and R3 362 072.
- Revenue from exchange transactions and non-exchange transactions of R350 769 and R26 474 respectively, as included in the disclosed balances of R37 308 086 and R53 236 928.

Consequently, I was unable to determine whether any adjustment to these items was necessary.

Qualified opinion

10. In my opinion, except for the effects of the matters described in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Hantam Municipality as at 30 June 2015 and its financial performance and cash flows for the year then ended, in accordance with the SA standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

11. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Material losses

12. As disclosed in note 16 and 17 to the financial statements, a significant provision for the impairment of receivables from exchange transactions and non-exchange transactions was made, which constitutes 63% and 61% of the total receivables from exchange transactions and non-exchange transactions balance respectively.
13. As disclosed in note 44 to the financial statements, material losses to the amount of R2 872 482 (16.70%) and R1 799 592 (17.05%) were incurred as a result of the distribution of electricity and water respectively.

Additional matters

14. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited supplementary schedules

15. The supplementary information set out on Appendices A to E does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

Unaudited disclosure notes

16. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Report on other legal and regulatory requirements

17. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, compliance with

legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading, but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

18. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objectives presented in the annual performance report of the municipality for the year ended 30 June 2015:
 - KPA 2: Basic service delivery on pages x to x
19. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
20. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).
21. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
22. The material findings in respect of the selected objectives are as follows:

KPA 2: Basic Service Delivery

Usefulness of reported performance information

23. Section 41(c) of the Municipal Systems Act requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents.
 - A total of 19% of the reported objectives were not consistent with those in the approved integrated development plan.
 - A total of 15% of the reported indicators were not consistent with those in the approved integrated development plan.
 - A total of 8% of the reported targets were not consistent with those in the approved integrated development plan.
24. This was due to a lack of documented and approved internal policies and procedures to address reporting requirements and a lack of consistent reporting and review of the presentation of the annual performance report by management.
25. Performance targets were not specific in clearly identifying the nature and required level of performance, were not measurable and the period or deadline for delivery of targets was not specified, as required by the FMPPI.

26. Performance indicators were not clearly defined so that data can be collected consistently and is easy to understand and use. Performance indicators were also not verifiable.
27. The measurability of planned targets and indicators could not be assessed due to a lack of technical indicator descriptions, proper systems and processes and formal standard operating procedures or documented system descriptions.
28. The FMPPi requires indicators to relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives. The relevance of the indicators could not be assessed due to a lack of corroborative supporting evidence to verify management's explanation why the indicators were considered important and relevant to the realisation of strategic goals and objectives.

Reliability of reported performance information

29. The FMPPi requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of the reported performance information. This was due to limitations placed on the scope of our work due to the absence of information systems, the fact that the auditee could not provide sufficient appropriate evidence in support of the reported performance information.

Additional Matter

30. I draw attention to the following matter:

Achievement of planned targets

31. Refer to the annual performance report on pages x to x for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information for the selected objectives reported in paragraphs 22 to 26 of this report.

Compliance with legislation

32. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Strategic planning and performance management

33. The adopted integrated development plan (IDP) did not reflect and identify a financial plan, as required by sections 26 and 41 of the MSA, as well as Municipal Planning and Performance Management Regulation 2(3)(a-c).
34. The performance management system

- did not clarify the roles and responsibilities of each role-player; and
- did not determine the frequency of reporting and the lines of accountability; and
- did not relate to the employee's performance management processes;

as required by section 38(a) of the MSA and Municipal Planning and Performance Management Regulation 7(2)(c,e,f).

Financial statements, performance and annual reports

35. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA.
36. Material misstatements of non-current assets, current assets, revenue and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.
37. The oversight report, containing comments on the annual report, was not adopted by council within two months from the date on which the 2013/14 annual report was tabled, as required by section 129(1) of the MFMA.
38. The annual performance report for the year under review did not include measures taken to improve performance, as required by section 46(1)(c) of the MSA.

Audit committees

39. A performance audit committee was not in place and the audit committee was not used to fulfil the performance audit committee function, as required by Municipal Planning and Performance Management Regulation 14(2)(a).
40. The audit committee did not advise the council on matters relating to the adequacy, reliability and accuracy of financial reporting and information, as required by section 166(2)(a)(iv) of the MFMA.
41. The audit committee did not review the annual financial statements to provide the council with an authoritative and credible view of the financial position of the entity, its efficiency and effectiveness and its overall level of compliance with legislation, as required by section 166(2)(b) of the MFMA.
42. The audit committee did not review the municipality's performance management system and make recommendations to the council, as required by Municipal Planning and Performance Management Regulation 14(4)(a)(ii).
43. The audit committee did not review all the quarterly internal audit reports on performance measurement, as required by Municipal Planning and Performance Management Regulation 14(4)(a)(i).
44. The audit committee did not submit, at least twice during the financial year, an audit report on the review of the performance management system to the council, as required by Municipal Planning and Performance Management Regulation 14(4)(a)(iii).
45. The audit committee was not constituted, in the manner required by section 166(4)(a) MFMA as the following requirements were not adhered to:

- The audit committee did not consist of at least three persons throughout the year.

Procurement and contract management

46. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by SCM Regulation 17(a) and (c).
47. Quotations were accepted from prospective providers who are not registered on the list of accredited prospective providers and do not meet the listing requirements prescribed by the SCM policy in contravention of SCM Regulation 16(b) and 17(b).
48. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM Regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM Regulation 36(1).
49. Bid specifications were not always drafted by bid specification committees which were composed of one or more officials of the municipality as required by SCM Regulation 27(3).
50. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to bidders based on points given for criteria that were stipulated in the original invitation for bidding and quotations, as required by SCM Regulations 21(b) and 28(1)(a) and Preferential Procurement Regulations.
51. The preference point system was not applied in all procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act and SCM Regulation 28(1)(a).
52. Contracts and quotations were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, as required by SCM regulation 43.
53. Persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, as required by SCM regulation 46(2)(e).

Human resource management and compensation

54. Municipal manager and manager directly accountable to municipal manager were appointed without submitting disclosure of financial interests in contravention of regulation 4 of GNR 805.
55. Sufficient appropriate audit evidence could not be obtained that the senior managers dismissed for financial misconduct in a previous position and re-appointed before the expiry of 10 years in contravention of section 57A of the MFMA.

Expenditure management

56. Reasonable steps were not taken to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Conditional grants received

57. The Municipal Infrastructure Grant allocation was not spent in accordance with the applicable grant framework, in contravention of section 17(1) of the DoRA.
58. The municipality did not evaluate its performance in respect of programmes funded by the Municipal Infrastructure Grant allocation, as required by section 12(5) of the DoRA.
59. The Municipal Systems Improvement Grant allocation was not spent in accordance with the applicable grant framework, in contravention of section 17(1) of the DoRA.
60. The municipality did not evaluate its performance in respect of programmes or functions funded by the Municipal Systems Improvement Grant allocation, as required by section 12(5) of the DoRA.
61. The Local Government Financial Management Grants allocation was not spent in accordance with the applicable grant framework, in contravention of section 17(1) of the DoRA.

Asset and liability management

62. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

Consequence management

63. Unauthorised and irregular expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a)(ii) of the MFMA.

Internal control

64. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

65. The accounting officer did not exercise oversight responsibility over the preparation of the financial statements, the report on predetermined objectives, compliance with laws and regulations, and internal control. The leadership did not implement processes to ensure that reviews took place before information was submitted. This was also evidenced by the material misstatements in the financial statements, non-compliance with laws and regulations and internal control deficiencies noted throughout the audit process.

Financial and performance management

66. Manual or automated controls were not designed to ensure that the transactions had occurred, were authorised and were completely and accurately processed in all

instances, while the system of internal control was not adequately designed. Certain corrective measures were not implemented to address the shortcomings in the financial statements and related systems.

67. Material amendments had to be made to the financial statements as these were not accurate and complete, because senior management did not pick up inconsistencies during the review process. This indicates that there were weaknesses in internal control with regard to the review process of the financial statements.
68. There were deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.

Governance

69. Leadership does not act on a timeous basis to internal audit's recommendations or reports thereby impacting their effectiveness as an assurance provider to the leadership of the municipality.
70. The audit committee did not fulfil their responsibilities as required by the MFMA.

Auditor - general
Kimberley

30 November 2015



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